

Joint Legislative Audit Committee

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California Legislature



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July 17, 1978

Letter Report 715.7

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully forwards the Auditor General's letter report reviewing certain capital outlays at the University of California.

The auditors are Kurt R. Sjoberg, Audit Manager, and Dore C. Tanner.

Sincerely,

MIKE CULLEN
Chairman



Joint Legislative Audit Committee

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California Legislature



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LOS ANGELES

July 11, 1978

Letter Report 715.7

Honorable Mike Cullen
Chairman, and Members of the
Joint Legislative Audit Committee
Room 5144, State Capitol
Sacramento, California 95814

Dear Mr. Chairman and Members:

In response to a resolution of the Joint Legislative Audit Committee, we have conducted a limited review of certain capital outlays at the University of California. This review was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

This report, the seventh in a series of reports on the operations and activities of the University of California, addresses alleged improper activities by the University regarding the School of Dentistry building at the San Francisco campus and the School of Veterinary Medicine building at the Davis campus.

The allegations of misconduct regarding the San Francisco campus School of Dentistry building were investigated by the Department of Finance. The allegations concerning the School of Veterinary Medicine building at the Davis campus were investigated by the Federal Department of Health, Education, and Welfare (DHEW). In both cases, no improper actions were found. We therefore believe that any further audit by us would be unnecessary.

Office of the Auditor General

Honorable Mike Cullen
Chairman, and Members of the
Joint Legislative Audit Committee
July 11, 1978
Page 2

School of Dentistry Building

During legislative hearings for the Budget Act of 1977, the budget committees were presented with allegations that the University of California improperly transferred funds for the dental building at the San Francisco campus. Included was an allegation that the University misled the State Controller's office by unlawfully instructing the transfer of \$8 million from the unappropriated balance of the Health Science Facilities Construction Fund to the Dental Building Construction Project account.

The Department of Finance reviewed the dental school project and concluded: "...it is and has always been the University's intent to comply with legislative direction related to reverting equal funds for the Dentistry Project and upon receipt of federal funds the University will request reversion of the appropriate amount of funds." The Department of Finance further stated: "...the University is acting in good faith and they are not proposing misuse of any state funds as suggested..." and "...the postponing of the reversion which reinstated the \$8,169,000 was only a technical action to permit advertising of bids." (See Appendix A.)

School of Veterinary Medicine

The allegations against the School of Veterinary Medicine at Davis involved the installation of a transformer as a part of the renovation project at the Central Animal Facility. The renovation was financed by a grant from DHEW to purchase equipment to provide satisfactory experimental animal care and to comply with the Federal Animal Welfare Act.

The allegation against the University claimed that the transformer was not included in the approved drawings and was not approved prior to DHEW execution of the grant.

The DHEW Audit Agency performed an interim audit of the grant to determine whether reported costs were acceptable in the view of reasonableness, allocability and allowability under applicable federal regulations and the terms of the grant. This audit included a review of the propriety of the charge for the transformer used on the grant but not included in the project. The interim audit determined that the cost reported under the grant was acceptable. The report further stated: "We have determined that \$2,424 cost of the transformer was completely offset by the project costs for alterations and renovations paid from the University funds, and which cost would have constituted a valid charge to the grant. Accordingly, the amount represented by the purchase price of the transformer...is considered to be acceptable." (See Appendix B.)

Office of the Auditor General

Honorable Mike Cullen
Chairman, and Members of the
Joint Legislative Audit Committee
July 11, 1978
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Conclusion

The allegations concerning the dental building at the San Francisco campus and the veterinary building at the Davis campus were investigated and no improper university actions were found. Based on these findings, we do not believe that additional audit activity by us would be necessary.

Respectfully submitted,



JOHN H. WILLIAMS
Auditor General

Staff: Kurt R. Sjoberg, Audit Manager
Dore C. Tanner

Attachments:

Appendix A--Department of Finance Letter Dated May 17, 1977
Review of University of California, San Francisco
Dental Building

Appendix B--Department of Health, Education and Welfare Audit Agency
Letter Dated October 30, 1974
Review of School of Veterinary Medicine at University
of California, Davis

UNIVERSITY OF CALIFORNIA SYSTEMWIDE ADMINISTRATION

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Office of the President

BERKELEY, CALIFORNIA 94720

July 6, 1978

Mr. John H. Williams
Auditor General
Joint Legislative Audit Committee
925 "L" Street, Suite 750
Sacramento, California 95814

Dear Mr. Williams:

This will acknowledge your letter of June 29 and the draft report on the review of capital outlays at the University of California. We appreciate the opportunity to review it. I am pleased that your review established that there were no improper actions by the University. Thus we need not comment further on the matter. However, we will be pleased to answer any questions you may have.

Sincerely,

A handwritten signature in dark ink, appearing to read "David S. Saxon", followed by a horizontal line.

David S. Saxon
President

DEPARTMENT OF FINANCE

SACRAMENTO



May 17, 1977

Mr. Gerald Hayward, Consultant
Senate Finance Committee
State Capitol, Room 5052
Sacramento, CA 95814

Dear Jerry:

Subject: University of California, San Francisco--Dentistry Building,
Health Sciences Bond Funds/Federal Funds

During the Senate Finance Subcommittee on Education hearing April 20, 1977, there was total confusion regarding actions taken by the University, the State Controller's Office, and the State Public Works Board regarding the application of \$8,169,000 of Health Sciences Facilities Construction Bond Funds as it relates to the commitment of Federal Grant funds for the Dentistry Project at the University of California, San Francisco Campus. Senator Stiern, Chairman, requested the Department of Finance, Legislative Analyst's Office, and the University of California to prepare a fact sheet responding to the comments presented by John Bardis on this subject and the following is respectfully submitted.

First, I believe there is a complete misunderstanding by Mr. Bardis as to the actions taken and why they were taken by all parties concerned. Therefore, in order to clarify the apparent misunderstanding, a detailed chronology of events is offered.

1. The Dentistry Program was approved by the Legislature during the 1974-75 fiscal year and construction funds in the amount of \$11,000,000 were appropriated in the 1974 Budget Act under Item 409(16). With the appropriation, control language was added that: "the University of California, having made application for federal grant funds, any federal grant funds received by the University for any project in the schedule, or for any Health Sciences Facilities Bond Act Program project for which funds have been previously appropriated, shall be substituted for the funds in the schedule or for such state funds as may have been previously appropriated, equal in amount to the Federal Grant funds received."
2. In keeping with legislative intent, Chapter 176, Statutes of 1975, Section 11.10 specified that "the University of California, having applied for grants of monies from the Federal Government, the following appropriations shall revert, as commitments for such

grants are made, to the unappropriated balance of the Health Sciences Facilities Construction Program Fund in amounts equal to the Federal Grant commitments - Item 409(16), Budget Act of 1974, Construct School of Dentistry, San Francisco, Health Sciences.

3. On November 5, 1975, the University of California requested the State Controller's Office revert the \$8,169,000 to the unappropriated balance of the Health Sciences Facilities Construction Bond Act Fund (letter attached, see page 2). This action was taken by the University of California because of the control language in Section 11.10, Budget Act of 1975, and they anticipated receipt of the Federal Grant funds in the same amount. However, federal funds were not made available to the University when they requested the action of the State Controller's Office.
4. In June 1976, the University requested the School of Dentistry Project be placed on the June 21, 1976 State Public Works Board Agenda for approval of construction funds in order to permit advertising of bids for construction. The staff of the Department of Finance requested certification of receipt of federal funds in the amount equal to the amount requested to be reverted by their November 5, 1975 letter. We were advised that the Federal funds, because of legal problems, had not yet been made available to the University for this project. Therefore, in order to advertise for bids, the total funding required for this project would have to be from the Health Sciences Bond Fund, since the State Public Works Board cannot approve a project when only partial funding is available.
5. Under date of June 11, 1976 (letter attached), the University requested the State Controller's Office reinstate the bond funds by deleting Item 409(16), Chapter 375/74 in the amount of \$8,169,000 as identified on page 2 of the November 5, 1975 letter. As stated, these funds will be reverted pursuant to Section 11.10, Budget Act of 1975 when federal grants are received for the Dentistry Project.
6. On June 21, 1976, the State Public Works Board approved the School of Dentistry Project, San Francisco at an estimated total project cost of \$14,700,000, including \$8,169,000 in non-State funds, and \$2,900,000 for construction cost rise. Agenda attached - see page 18 for reference.

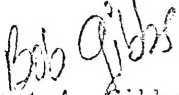
In conclusion, I believe it is and has always been the University's intent to comply with legislative direction related to reverting equal funds for the Dentistry Project and upon receipt of federal funds the University will request reversion of the appropriate amount of funds.

I am convinced the University is acting in good faith and they are not proposing misuse of any state funds as suggested during the April 20 hearing. As I see it, the postponing of the reversion which reinstated the \$8,169,000 was only a technical action to permit advertising of bids.

May 17, 1977

Hopefully, I have answered the Committee's concerns on this item. Should you have any further questions, please do not hesitate to call me at 445-0328.

Sincerely,



Robert A. Gibbs
Principal Program Budget Analyst
Education Systems Unit

Attachments

cc: Dr. Clinton Powell, University of California
Larry Hershman, University of California
W. C. Chan, State Controller's Office
Gerald Beavers, Legislative Analyst's Office
John Bardis, President, Inner Sunset Action Committee, 1353 Fourth Avenue,
San Francisco, CA 94122



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
REGION IX
FEDERAL OFFICE BUILDING
50 FULTON STREET
SAN FRANCISCO, CALIFORNIA 94102

APPENDIX B

AUDIT AGENCY

Audit Control No. 51009-09

The Regents of the University
of California
Accounting Office
411 Mrak Hall
Davis, California 95616

SUBJECT: Interim Audit of Costs Under
National Institutes of Health
Grant No. RR00467 with the
University of California at Davis

Introduction

We have made an interim audit of costs reported by the University of California at Davis under National Institutes of Health (NIH) Grant No. RR00467 for the period March 1, 1972 through February 28, 1974. The purpose of the audit was to determine whether reported costs were acceptable in view of reasonableness, allocability and allowability under applicable Federal regulations and the terms of the grant, and were accounted for in accordance with generally accepted accounting principles. We were also requested to review the propriety of a charge for a transformer used on the grant, but not included in project specifications. The grant provided for the expansion and improvement of the Animal Resources Service facilities to better serve the experimental animal needs of the Davis Campus of the University of California. The grant period of performance is March 1, 1972 through February 28, 1975.

Highlights of Audit Results

We have concluded that costs of \$394,498 reported under the grant for the period of performance included in our review are acceptable. These costs are detailed in Exhibit A.

We have determined that the \$2,424 cost of the transformer was completely offset by project costs for alterations and renovations paid from University funds, and which costs would have constituted a valid charge to the grant. Accordingly, the amount represented by the purchase price of the transformer, and included in the \$394,498 claimed, is considered to be acceptable.

Scope of Audit

Our review was performed in accordance with governmental auditing standards and accordingly included such auditing procedures as considered necessary in the circumstances.

Organization and Operations

The University is a nonprofit State educational institution. It is governed by a Board of Regents whose President is the Governor of the State of California. Educational and research activities are conducted on campuses located in Berkeley, San Francisco, Davis, Los Angeles, Riverside, San Diego, Santa Barbara, Santa Cruz, and Irvine, California, and at various off-campus locations.

Accounting System

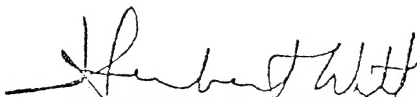
The University maintains an appropriation or fund-type accounting system which is considered adequate for determination of costs under Government cost-type contracts and grants.

General

If you have any questions or comments concerning this report, please direct them to:

Chief, Financial Advisory
Services Branch
Office of Contracts and Grants
National Institutes of Health
Building 31, Room 1B43A
9000 Wisconsin Avenue
Bethesda, Maryland 20014

To facilitate identification, please refer to the above audit control number in all correspondence relating to this report.



Regional Audit Director
HEW Audit Agency

10/30/74
Date

EXHIBIT A

UNIVERSITY OF CALIFORNIA

DAVIS, CALIFORNIA

STATEMENT OF COSTS REPORTED ON NIH GRANT NO. RRC0467

FOR THE PERIOD

MARCH 1, 1972 THROUGH FEBRUARY 28, 1974

AND RESULTS OF AUDIT

<u>Element of Expense</u>	<u>Costs Reported</u>		<u>Total</u>
	<u>March 1, 1972 through February 28, 1973</u>	<u>March 1, 1973 through February 28, 1974</u>	
Equipment and facilities	\$ 44,541	\$235,874	\$280,415
Alterations and renovations	70,484	2,951	73,435
Other costs	<u>2,576</u>	<u>38,072</u>	<u>40,648</u>
Total	<u>\$117,601</u>	<u>\$276,897</u> (Note 1)	<u>\$394,498</u>

Note 1. In March 1973 the University purchased a transformer in conjunction with alterations authorized by the grant. The transformer was not provided for in the project specifications approved by NIH due to an oversight by the University. The purchase price of the transformer, amounting to \$2,424, was subsequently charged to the grant.

In a letter to NIH dated April 9, 1974, the University stated that approximately \$12,500 of its funds were used for alteration and renovation purposes authorized by the grant. As a result, the cost of the transformer was completely offset by project costs paid from University funds. Our examination of recorded project costs confirmed the University's position. Accordingly, it is our opinion that the amount represented by the purchase price of the transformer, or \$2,424, constitutes a proper charge to the grant.